

# AUDIT MEMO

SUBJECT: Internal Control and Federal Compliance Deficiencies Reported	NO.: 98-01
REFERENCES: California Single Audit Report for Fiscal Year 1995-96	DATE ISSUED: November 1997

**PURPOSE:** This memo provides agencies with a summary of the more common deficiencies identified in the California Single Audit Report for Fiscal Year 1995-96. Additionally, this memo requires agencies with reported weaknesses to submit to the Department of Finance, Office of State Audits and Evaluations (OSAE), a six month status report on 1995-96 findings, and copies of responses to future single audits.

**BACKGROUND:** The Bureau of State Audits (Bureau) conducts an annual single audit of the state. As part of its audit, the Bureau identifies weaknesses in internal controls and in compliance with federal requirements. Individual departments with reported weaknesses are responsible for responding to the Bureau. The Department of Finance, consistent with its responsibility for the business policies and practices of the state, provides the leadership to ensure that such policies and practices are appropriate. Consequently, the Department has assigned OSAE the responsibility to provide direction on statewide issues, and to monitor the corrective actions taken by the individual departments.

**ISSUES:** The following summarizes the more common internal control and federal compliance weaknesses and recommendations identified by the Bureau. The referenced finding numbers are from the 1995-96 Single Audit Report.

- **Statewide real property inventory is incomplete. (96-5-7)**  
Departments should reconcile their real property inventory as reported on their Statement of General Fixed Assets to the amount reported to the Department of General Services on the Statewide Real Property Inventory.
- **The timing and amount of federal cash advances are not always limited to actual, immediate cash requirements. (96-7-1)**  
Departments should limit the federal cash advances to the minimum amounts needed and time the advances according to their actual, immediate cash requirements.
- **Personal service costs charged to federal grants are not always properly certified or documented, nor are they always properly allocated to federal programs. (96-8-1; 96-8-2)**  
Each grant recipient should establish an adequate time reporting system that uses activity reports or certifications to document and account for the total activity of each employee, and for the time charged to federal programs. Additionally, departments should ensure that costs charged to federal programs are necessary, reasonable, and adequately documented.

- **Federal financial reports are not always accurate and reconciled to the accounting records. (96-9-1)**

To ensure compliance with federal reporting requirements, departments should prepare accurate federal financial reports and reconcile them to the accounting records.

- **Audit reports of federal funds *subrecipients* are not always sufficiently monitored and steps are not always taken to ensure that audit findings are resolved within six months of receipt of the audit report. (96-10-1; 96-10-2; 96-10-3)**

Departments should identify all federal funds subrecipients required to submit an independent audit report. Further, departments should ensure that audits are submitted on time and that all reported audit findings are appropriately resolved within six months.

**REQUIREMENTS:** In accordance with its responsibility to provide direction on statewide issues and to monitor the corrective actions taken, OSAE is requiring the following:

1. Each department should evaluate the potential risk of occurrence of the above weaknesses and take appropriate action. For example, a department with real property may evaluate the risk of an incomplete inventory as high. The department may then develop a procedure to reconcile the real property inventory annually.
2. For departments with weaknesses reported in the 1995-96 Single Audit Report, submit to OSAE a six-month status report of corrective actions taken no later than December 31, 1997. This report will describe actions taken subsequent to the department's initial response to the Bureau of State Audits.
3. Beginning with the 1996-97 Single Audit and thereafter, agencies responding to the Bureau of State Audits on reported weaknesses should submit a copy of such response to OSAE.

Please ensure this Audit Memo is widely and properly distributed within your organization. If you have any questions, please contact Carol C. Close, Assistant Chief, OSAE, at (916) 322-2985, ext. 3103. A complete copy of the 1995-96 Single Audit Report can be obtained on our internet site at <http://www.dof.ca.gov/fisa/osae/osaehome.htm>.

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